



Investment Office

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AGENDA ITEM 4b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Investment Office Policy/Delegation Review Project Update and Adoption of Total Fund Statement of Investment Policy
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Adoption of Total Fund Statement of Investment Policy and Repeal of Policy Administration Policy
- IV. ANALYSIS:**

Project Update

The purpose of this item is to inform the Investment Committee with regard to the next phase of the Investment Office's Policy/Delegation Review Project.

As of May 2007, the delegation portion of the Policy Review Project has been completed. The next portion of the project – consisting of a comprehensive review of existing Policy – is well underway. Staff has periodically been updating the Policy Subcommittee on the project, but given its magnitude, wishes to provide this update to the full Investment Committee.

The current Investment Policy manual consists of 67 policies. These cover a range of topics for all asset classes and their programs, as well as for asset allocation, risk management, operations, ethics, and shareowner activities.

The objectives of the Policy Project are to:

1. Organize and streamline Investment Policy to improve access, clarity and transparency for the Committee, Staff, external business partners, and other interested parties.
2. Provide a consistent Investment Policy framework.

3. Ensure that the policies will facilitate the on-going CalPERS compliance program.

Like the delegations portion of the project, this project is being conducted by a work group consisting of the Chief Operating Investment Officer, Senior Investment Staff and their representatives, and the Board's investment consultants, with input from the Legal and Compliance Offices. The Results Group is serving as project manager.

The Discovery Phase of the Project, (documentation by staff and consultants of all Investment Policy) is complete, and the Analysis Phase is currently underway. Attached are the following documents, previously provided to the Policy Subcommittee, which are pertinent to the project:

- Checklist against which all Investment Policies are to be reviewed (Attachment 1).
- Instruction Template to be used in re-formatting policies to improve their consistency and clarity (Attachment 2). Although a template had been developed several years ago, project staff found that it was no longer being used consistently. The template has been updated to take advantage of opportunities to standardize Policy provisions that are generic in nature, and to ensure consistency across asset classes.

Staff has also reviewed the current organization of Investment Policy with an eye towards improving access and ease of reference to both external and internal users. It was determined that the current "Table of Contents" could be improved to facilitate a more targeted inquiry into the subjects addressed by the Investment Policies. For example, currently a significant number of policies appear under the heading "Miscellaneous Investment Policies." This heading was eliminated in favor of a more precise and user-friendly approach. The new Table of Contents (Attachment 3) will improve access to and thus transparency of Investment Policies.

We are now entering Phase III, or the Implementation Phase, of the project. In this phase we will follow a similar approach as was followed with the Delegation Review portion of the project and will systematically bring to the Policy Subcommittee revised policies. It is estimated that this phase will be completed in one year.

As the individual policies are reviewed, staff will be looking for opportunities to streamline and improve the policies, including, for example, the following:

- Now that the delegations have been completed, all delegation language will be removed from Policy. The delegation resolutions include references to applicable policies.

- Operational and procedural matters will be removed from Policy and included in appropriate operational/procedural manuals.
- Overlapping policies will be consolidated or repealed where appropriate. For example, in the Real Estate class, we anticipate a significant reduction in the overall number of policies. Another example is the anticipated consolidation of numerous policies applicable to externally managed equity programs.

The purpose of this project is not to substantively revise Policy. This project is limited to consolidating, streamlining, and increasing consistency within existing policy. Due to the extent and type of formatting and editorial revisions expected, staff does not anticipate that the use of redline versions will facilitate the Subcommittee and Committee's review. However, if, in the course of the project, the need for substantive revisions is identified, those policies will be brought to the Policy Subcommittee. In those instances, redline versions will be presented for the Subcommittee and Committee's review.

Staff is confident that the effort expended in this careful review and revamping of Investment Policy will greatly facilitate our compliance efforts as well as create a more fully transparent and easily accessible set of policies for staff and others to follow.

Adoption of Total Fund Statement of Investment Policy

During our analysis of the existing policies, Staff and consultants noted the absence of a single overarching statement of investment policy. The new policy was drafted by Wilshire Associates, the Committee's general pension consultant, with input from Staff as well as the other investment consultants. This overarching statement addresses the investment philosophy for the Total Fund. This will facilitate a "top-down" approach and will articulate a contextual framework for the individual policies that follow.

Further, in an effort to consolidate policies, Staff merged the Policy Administration Policy adopted in 2000 with the new Total Fund Statement of Investment Policy. Language relevant to procedure has been removed and will be included in appropriate Staff procedure manuals.

Staff recommends adoption of the Total Fund Statement of Investment Policy (Attachment 4).

V. STRATEGIC PLAN:

This Item supports:

- Goal II: Foster an environment that values quality, respect, diversity, integrity, openness, communication and accountability.
- Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second, to minimize and stabilize contributions; and
- Goal IX: Achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

Upon completion of this project, the CalPERS Investment Program will have a streamlined Policy and delegations framework that is clear, consistent, and accessible. This will allow the Investment Committee, Investment Policy Subcommittee and Investment Office staff to operate within a transparent and clearly stated body of policies and delegations. The results of this project will also serve as a foundation for future delegations and Policy decisions.

This project requires substantial staff and consultant resources. Wilshire and PCA consultant services for this project fall within the scope of existing contracts. The cost for project management and consulting services provided by The Results Group will be absorbed within the existing budget.

Anne Stausboll
Chief Operating Investment Officer